ABITIBI

Annual Report 1974

Contents

The Annual Meeting of Shareholders will be held in the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Thursday, May 15, 1975 at 10:30 a.m. Toronto time.

For Canadian income tax purposes, the values of Abitibi Paper Company Ltd. common and preferred shares on Valuation Day, December 22, 1971, were $7.25 and $49.50 respectively.

On peut obtenir ce rapport annuel en français sur demande.

Preface

As you will see from the table of contents, the format of your company's annual report has been changed from that of previous years. In the first sections, you will find the directors' report, financial statements and notes, and the financial and ten year reviews presented on a consolidated basis that includes the operations of The Price Company Limited since the acquisition of control by Abitibi in the fourth quarter of 1974. Following these statements and reports, the activities of both Abitibi and Price are described in some detail so that you may have a perspective of the enlarged scope of your company and the policies it is pursuing. This is followed by more detailed data including 1974 operations of the various Abitibi product groups.

Annual Report for the year ended December 31, 1974

Abitibi Paper Company Ltd.
Head Office: Toronto-Dominion Centre, Toronto, Canada M5K 1B3

Comparative Summary *(thousands of dollars except per share calculations)*	**1974**	**1973**
Net sales	$551,893	$403,536
Depreciation and depletion	$ 21,243	$ 17,732
Income taxes	$ 30,256	$ 15,030
Earnings from operations before equity in earnings of Mattabi Mines Limited	$ 35,904	$ 18,797
Per common share	*$1.94*	*$1.00*
Equity in earnings of Mattabi Mines Limited	$ 9,976	$ 11,755
Earnings from operations	$ 45,880	$ 30,552
Per common share	*$2.50*	*$1.66*
Extraordinary charge	—	$ 670
Net earnings	$ 45,880	$ 29,882
Per common share	*$2.50*	*$1.62*
Dividends declared on preferred shares	$ 718	$ 730
Dividends declared on common shares	$ 11,763	$ 4,954
Per common share	*65¢*	27½¢
Invested in capital assets	$ 35,460	$ 22,147
Working capital	$ 87,948	$ 94,582
Long term debt	$139,163	$ 97,592
Common shareholders' equity	$252,890	$219,431
Per common share	*$13.97*	*$12.13*
Number of common shareholders	25,801	25,674

Directors and Officers

DIRECTORS

Marcel Bélanger
Bélanger, Dallaire, Gagnon & Associés
Quebec City, Canada

Thomas J. Bell
Chairman of the Board
and Chief Executive Officer
Abitibi Paper Company Ltd.
Toronto, Canada

Edmund C. Bovey
Chairman of the Board
and Chief Executive Officer
Northern and Central Gas
Corporation Limited
Toronto, Canada

George M. Brain
Group Vice-President—Fine Papers
Abitibi Paper Company Ltd.
Toronto, Canada

Marsh A. Cooper
President and Managing Director
Falconbridge Nickel Mines Limited
Toronto, Canada

Robert C. Gimlin
Group Vice-President—Newsprint
Abitibi Paper Company Ltd.
Toronto, Canada

Charles L. Gundy
Chairman
Wood Gundy Limited
Toronto, Canada

Leonard G. Lumbers
Chairman of the Board
Noranda Manufacturing Ltd.
Toronto, Canada

Norman J. MacMillan, Q.C.
Montreal, Canada

General Lauris Norstad
Chairman of Executive Committee
Owens-Corning Fiberglas Corporation
Toledo, Ohio, U.S.A.

The Honorable John P. Robarts, P.C., C.C., Q.C.
Stikeman, Elliott, Robarts and Bowman
Toronto, Canada

Paul E. Roberts
Boca Raton, Fla., U.S.A.

C. Harry Rosier
President and Chief Operating Officer
Abitibi Paper Company Ltd.
Toronto, Canada

Kenneth R. Thomson
Chairman of the Board and President
Thomson Newspapers Limited
Toronto, Canada

Charles R. Tittemore
President and Chief Executive Officer
The Price Company Limited
Quebec City, Canada

John A. Tory, Q.C.
Tory, Tory, DesLauriers & Binnington
Toronto, Canada

William O. Twaits, C.C.
Toronto, Canada

Honorary Directors
Douglas W. Ambridge, *Honorary Chairman*
Harry J. Carmichael
The Rt. Hon. Lord Thomson of Fleet

OFFICERS

Thomas J. Bell – 485-2201
Chairman of the Board
and Chief Executive Officer

C. Harry Rosier
President and Chief Operating Officer

George M. Brain
Group Vice-President—Fine Papers

Robert C. Gimlin – Abitibi Price Sales Ltd
Group Vice-President—Newsprint
Roseland

Robert E. E. Costello
Senior Vice-President

J. Elliot Cottrelle
Senior Vice-President

James Flintoft, Q.C.
Vice-President and Secretary

John E. Haire
Vice-President—Finance

Mark D. S. Kellow
Vice-President—
Personnel and Public Relations

Bernd K. Koken
Vice-President—
Building Materials & Packaging—Canada

J. Ian McGibbon
Vice-President—
Corporate Development

T. Newman McLenaghen
Vice-President—
Operations, Newsprint Group—Canada

James B. Papoe
Vice-President—
Manufacturing, Newsprint Group—Canada

Roy Curtis, C.A.
Corporate Comptroller

J. Kenneth Stevens, C.A.
Operations Comptroller

H. Paul Armstrong
Treasurer

Michael D. Thompson
Assistant Secretary

R. Allan Thompson, C.A.
Assistant Treasurer

Robert A. Cook
Assistant Treasurer

TRANSFER AGENTS & REGISTRARS

Montreal Trust Company
Toronto, Montreal, Vancouver, Calgary, Regina, Winnipeg and Halifax, Canada

First National City Bank
New York, U.S.A. (Transfer Agent)

Bankers Trust Company
New York, U.S.A. (Registrar)

AUDITORS

Price Waterhouse & Co.
Toronto, Canada

Report of the Directors

In the fall of 1973 at the peak of rampant inflation, galloping commodity prices and extreme shortages, we budgeted 1974 sales of $500 million and a profit of $42 million or $2.30 per share. Actual sales were $552 million and our profit was $46 million or $2.50 per share. This is a major increase over the previous year.

It was our greatest year even though ending on a declining trend. Many changes occurred during the year. All our manufacturing facilities ran at full capacity through the first five months—our pulp and newsprint mills for the entire year.

The downturn in construction materials commenced in May and demand for our building products deteriorated rapidly for the balance of the year, with Canada lagging a few months behind the United States.

We decided early in the year that we should integrate our forest-based operations to protect our timber resources and maintain improved control over future wood costs. To implement this plan we began construction of a sawmill at White River, Ontario. In the summer we acquired Northern Wood Preservers, Limited and Pope & Talbot Ontario Ltd., the latter now known as Abitibi Lumber (Hudson) Ltd. The acquisition of Hudson included 1½ million acres of licensed wood resources. We recognized the erratic nature of lumber operations but in the future they will allow full integration with our pulp and paper operations. We will control the use of our own waste and fully utilize our fibre resources. We hope, over a period of time, to continue this policy at other major locations where conditions are favourable.

It had become evident in 1974 that Eastern Canada is rapidly running out of economic woodland. Our policy, in our capital spending program, has been designed to conserve our forest limits through better utilization and to improve efficiency and output of existing facilities.

We believe, with others, that it is desirable to maintain and strengthen the Canadian presence in the pulp and paper industry, especially in the Eastern Canadian newsprint sector.

The many factors that contributed to the industry's economic difficulties during the early 70's have been examined in some detail by both federal and provincial governments. Their analysis indicated that some forms of rationalization should be encouraged as a solution to some of the industry's problems. In addition, they concluded that mergers of some companies appeared to be desirable to develop stronger Canadian corporate entities better equipped to compete in international markets.

The condition of equity markets in November made it appropriate for your company to realize a long cherished dream—the acquisition of the controlling interest in The Price Company Limited. The operations of Abitibi and Price complement one another to a marked degree, and important savings are apparent in a joint approach to distribution and transportation, and in other areas.

The acquisition was achieved through an offer on the Toronto and Montreal stock exchanges, a procedure which had their approval. The event was dramatic and we are pleased to tell you that the managements of both companies are enthusiastic regarding the future. Common directors have been elected to the two Boards. This will ensure that the interests of Abitibi and Price are properly planned and co-ordinated. Price has important assets in Quebec and Newfoundland. It has an excellent management team.

The United States Department of Justice has asked your company for information on our operations and details surrounding this Canadian transaction. The request is made under Section 7 of the Clayton Act which prohibits acquisitions in the United States where the effect may be to substantially lessen competition or

create a monopoly. If the United States Department of Justice contends that this acquisition is in violation of the Clayton Act, for a number of reasons including principles of international law respecting the sovereignty of independent nations, it is doubtful that an order against the acquisition would be entered by a United States court. In addition, Abitibi's Canadian counsel have advised that such an order would not be enforced by the Canadian courts.

By September the bank debt incurred by Mattabi to finance its mine had been retired. Our share of the earnings for the year was $10 million and our first dividend cheque for $2 million was received in December. There were no interesting results from our modest exploration program.

Our dividend was increased in the third quarter to 20¢ per common share which is at the rate of 80¢ per year.

The profitability of this industry has been cyclical in the past. It is apparent that a rapid increase in new facilities will not occur, even in the atmosphere of rising demand, because of high and unpredictable capital costs and the lack of new and economic wood fibre resources.

We are optimistic about the long range prospects for your company, barring a major economic decline. Our major concern for our future is inflation and the rapid escalation of costs of production.

For example, in 1968 the average hourly wage rate in pulp and paper mills was $3.30 per hour in Canada and this compared favourably to a rate of $3.35 in the United States. In 1974 the comparable rates were $5.61 in Canada and $4.56 in the United States. Their rate has increased 36% while ours, in Canada, has increased almost twice as much, or by 70%.

The magnitude of this change is cause for serious concern as we in Canada have lost control of this vital element in our cost structure.

Our governments are not making sufficient efforts to restrain the inflation in our economy and sooner or later everyone in our country will have to make real sacrifices to cure this cancerous disease. The current labour settlements being made in Canada will have their impact on the whole economy a year from now and will place us at a disadvantage in our efforts to compete in foreign markets.

We face a year difficult to predict. Our industry follows general economic trends, but in the long range we will see shortages in the world supply and demand relationship for forest products. Your company, with its assets, resources and personnel, is in a strong position.

On behalf of the Board

T. Bell.

Chairman and Chief Executive Officer

Toronto, February 10, 1975

Consolidated Net Earnings

(*thousands of dollars except per share calculations*)

	Year ended December 31 1974	1973
Revenue:		
Net sales	$551,893	$403,536
Other income (note 3)	6,119	4,160
	558,012	407,696
Costs and Expenses:		
Cost of products sold	423,254	320,488
Selling, general and research expenses	36,662	27,723
Depreciation and depletion	21,243	17,732
Interest and expense on long term debt	7,611	7,574
Interest on bank indebtedness	1,787	352
Income taxes	30,256	15,030
	520,813	388,899
	37,199	18,797
Minority shareholders' interest	1,295	—
Earnings from operations before equity in earnings of Mattabi Mines Limited	35,904	18,797
Equity in earnings of Mattabi Mines Limited (note 4)	9,976	11,755
Earnings from operations	45,880	30,552
Extraordinary item		
Write-down of investment in veneer and plywood plant	—	670
Net earnings	$ 45,880	$ 29,882
Per common share:		
Earnings from operations before equity in earnings of Mattabi Mines Limited	*$1.94*	*$1.00*
Earnings from operations	*$2.50*	*$1.66*
Net earnings	*$2.50*	*$1.62*

Consolidated Retained Earnings

(*thousands of dollars*)

	Year ended December 31 1974	1973
Retained earnings at beginning of year	$169,490	$145,292
Net earnings	45,880	29,882
	215,370	175,174
Dividends declared on preferred shares	718	730
Dividends declared on common shares	11,763	4,954
	12,481	5,684
Retained earnings at end of year	$202,889	$169,490

Consolidated Balance Sheet

(thousands of dollars)

ASSETS

	December 31 1974	December 31 1973
Current Assets:		
Cash and short term investments	$ 54,714	$ 35,910
Accounts receivable	126,400	63,527
Inventories (note 1(c))	149,659	52,663
Prepaid expenses	4,323	2,150
	335,096	154,250
Capital Assets:		
Properties, plant and equipment	689,413	471,378
Less—accumulated depreciation	291,118	270,450
	398,295	200,928
Logging equipment and development at depreciated cost	19,476	6,327
Woodlands and mining and water power rights less accumulated depletion of $8,676 (1973—$8,341)	35,214	21,556
	452,985	228,811
Investments and Other Assets:		
Equity in Mattabi Mines Limited (note 4)	21,498	13,522
Receivables not currently due	6,047	1,646
Other investments (note 5)	9,989	6,432
Cost of shares of acquired companies in excess of values attributed to underlying net assets, less amortization	20,393	19,420
Unamortized discount and expense on long term debt	895	977
	58,822	41,997
	$846,903	$425,058

Approved by the Board of Directors:

T. J. Bell, Director

C. H. Rosier, Director

LIABILITIES

	December 31 1974	1973
Current Liabilities:		
Bank indebtedness (notes 2 and 12)	$114,838	$ 1,887
Accounts payable and accrued liabilities	78,499	38,997
Dividends payable	3,620	1,810
Income and other taxes payable	39,451	10,160
Payments due within one year on long term debt	10,740	6,814
	247,148	59,668
Long term debt (note 6)	139,163	97,592
Deferred income taxes	80,940	33,592
Unrealized gain on translation of foreign currencies	6,498	5,003
Minority shareholders' interest	110,795	—
SHAREHOLDERS' EQUITY		
Preferred shares: (note 7)		
Authorized: 1,000,000 shares par value $50 issuable in series (200,000 shares issued; 10,620 shares purchased and cancelled)		
Outstanding: 189,380 7½% Cumulative Redeemable Preferred Shares, Series A (1973—194,230 shares)	9,469	9,712
Common shares: (note 8)		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 18,097,369 shares (1973—18,097,275 shares)	50,001	50,001
Retained earnings	202,889	169,490
	262,359	229,203
	$846,903	$425,058

Changes in Consolidated Financial Position
(thousands of dollars)

	Year ended December 31 1974	1973
Working capital provided by:		
Earnings from operations	$ 45,880	$ 30,552
Charges (credits) to earnings not affecting working capital:		
Depreciation and depletion	21,243	17,732
Deferred income taxes	5,043	2,632
Minority shareholders' interest	1,295	—
Equity in earnings of Mattabi Mines Limited less dividend received of $2,000 (1973 dividend—nil)	(7,976)	(11,755)
Discount and expense on long term debt	89	90
Funds from operations	65,574	39,251
Disposal of capital assets	1,958	3,796
Increase in long term debt	948	2,518
Decrease in miscellaneous investments	1,912	1,289
Issue of common shares	—	189
Other items—net	21	50
	70,413	47,093
Working capital used for:		
Acquisition of subsidiary companies (note 2)	136,689	4,660
Less: Working capital of companies acquired	120,240	1,825
	16,449	2,835
Investment in capital assets	35,460	22,147
Reduction of long term debt	10,487	11,427
Retirement of preferred shares	227	37
Dividends declared	12,481	5,684
Dividends to minority shareholders	1,943	—
	77,047	42,130
Increase (decrease) in working capital	(6,634)	4,963
Working capital at beginning of year	94,582	89,619
Working capital at end of year	$ 87,948	$ 94,582

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and all subsidiary companies.

The cost of shares of acquired companies in excess of values attributed to underlying net assets is recorded as an asset on the consolidated balance sheet. In the opinion of management, amortization of the excess is unnecessary because the value of these investments is equal to or greater than original cost. However, for companies acquired during 1974 the excess of cost of shares is being amortized, in accordance with recent accounting recommendations of the Canadian Institute of Chartered Accountants, on the straight-line method over twenty years. This change in accounting practice had no material effect on 1974 earnings.

Investments in companies in which Abitibi holds a major interest but not more than 50% are included in the consolidated financial statements in accordance with the equity method of accounting whereby the investment account is increased by Abitibi's equity in the earnings of these companies and decreased by dividends received.

(b) Translation of foreign currencies
Balances and transactions in other currencies have been translated into Canadian dollars as follows:

Capital assets and investments at exchange rates in effect at dates of acquisition;

Other assets and liabilities at rates in effect at December 31st;

Revenue and expenses at average rates for the year except for depreciation and depletion which are on the same basis as the related capital assets.

The unrealized gain on translation of foreign currencies is deferred and carried forward on the consolidated balance sheet. The gain arises principally from the restatement to the current rate of exchange of long term debt payable in United States funds. Realization of all or any part of this gain is dependent on the foreign exchange rate in effect when the debt is retired.

(c) Inventories
Inventories of finished products, work in process, materials and supplies are valued at the lower of cost or net realizable value. Inventories of pulpwood, chips and sawlogs are valued at cost.

Cost is generally determined on an average basis.

Inventories consist of the following at December 31st:

	1974	1973
Finished products and work in process	$ 41,497,000	$ 19,885,000
Materials and supplies	45,688,000	17,045,000
Pulpwood, chips and sawlogs at mills	24,084,000	3,895,000
Expenditures on current logging operations	38,390,000	11,838,000
	$149,659,000	$ 52,663,000

(d) Capital assets
Properties, plant and equipment are stated at cost except for assets with a depreciated book value at December 31, 1974 of $4,441,000 (1973—$4,780,000) which are included at appraised values as at April 30, 1946. Depreciation is provided generally on the straight-line method at rates designed to write off the assets over their estimated useful lives. The principal category is primary production equipment which is depreciated over 20 years.

Depletion of woodlands is provided to the extent of amounts allowable for income tax purposes.

(e) Unamortized discount and expense on long term debt
Discount and expense on long term debt is amortized over the term of the related obligation with appropriate adjustments for any early retirement of the debt.

(f) Research and development
Research and development expenditures are written off when incurred except for expenditures on physical facilities which are capitalized and depreciated on a straight-line basis over their estimated useful lives.

(g) Deferred income taxes
Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates. Reported earnings differ from taxable income because of timing differences, principally depreciation which under income tax legislation currently exceeds the depreciation provided in the financial statements. As a result, taxes provided are greater than taxes currently payable. An amount equal to this difference is set aside as deferred income taxes which are drawn down in years when taxable income exceeds reported earnings.

(h) Earnings per common share
Earnings per common share calculations are based on the average number of shares outstanding during the year and are computed after allowing for dividends on preferred shares.

2. Acquisitions

On November 21, 1974, through the facilities of the Toronto and Montreal stock exchanges, Abitibi purchased 5,000,000 common shares of The Price Company Limited, representing 50.7% of the outstanding common shares, for $125,500,000 payable in cash as the shares were delivered. Bank borrowings amounting to $111,500,000 were incurred by Abitibi to finance the purchase of these shares. The acquired shares are pledged as security for this indebtedness. Price is a major diversified Canadian forest products organization with its principal mills located in the provinces of Quebec and Newfoundland; sales during the year ended December 31, 1974 amounted to $320,147,000 and assets at December 31, 1974 totalled $363,503,000.

Also during 1974 Abitibi acquired for cash all of the outstanding shares of Northern Wood Preservers, Limited and Pope & Talbot Ontario Ltd., the latter now called Abitibi Lumber (Hudson) Ltd. These companies are engaged in lumber operations in northern Ontario.

The acquisitions of these subsidiary companies have been accounted for using the purchase method and the results of their operations have been included in the consolidated financial statements from their respective dates of acquisition. A summary of the net assets acquired is set out below.

	Price	Northern Wood and Abitibi Lumber (Hudson)	Total
Total assets at book value	$356,577,000	$ 14,825,000	$371,402,000
Total liabilities at book value	143,383,000	5,619,000	149,002,000
Net assets at book value	213,194,000	9,206,000	222,400,000
Deduct: Minority interest in net assets	111,443,000	—	111,443,000
	101,751,000	9,206,000	110,957,000
Excess of purchase price over net assets:			
Allocated to properties, plant and equipment	23,749,000	831,000	24,580,000
Not allocated (note 1(a))	—	1,152,000	1,152,000
Total purchase price	$125,500,000	$ 11,189,000	$136,689,000

3. Other Income

	1974	1973
Interest and miscellaneous income	$ 5,002,000	$ 2,921,000
Gain on disposals of capital assets (principally real estate)	599,000	578,000
Foreign exchange gains on current maturities of long term debt	518,000	661,000
	$ 6,119,000	$ 4,160,000

4. Mattabi Mines Limited

Abitibi owns 40% of the common shares of Mattabi Mines Limited and its investment is carried at the nominal cost of $3 plus its interest in undistributed earnings in accordance with the equity method of accounting.

Under the provisions of income tax legislation, no federal or provincial income taxes were exigible on Mattabi's income from the commencement of production on August 1, 1972 to December 31, 1973. Starting in 1974, income taxes have been provided for on the tax allocation method.

The following is a condensed summary of the financial position of Mattabi as shown by its audited financial statements:

	December 31 1974	1973
Assets		
Current assets	$ 38,681,000	$ 33,957,000
Fixed assets, at cost less accumulated depreciation	28,518,000	31,812,000
Other assets, primarily pre-production and deferred development expenditures at cost less amounts written off	5,961,000	6,439,000
	$ 73,160,000	$ 72,208,000
Liabilities and shareholders' equity		
Current liabilities	$ 16,790,000	$ 10,478,000
Bank loans—less amounts due currently	—	25,300,000
Capital stock	2,625,000	2,625,000
Retained earnings	53,745,000	33,805,000
	$ 73,160,000	$ 72,208,000

	Year ended December 31 1974	1973
Net earnings	$ 24,940,000	$ 29,387,000
Abitibi's equity in earnings of Mattabi—		
Equity at beginning of year	$ 13,522,000	$ 1,767,000
Equity in earnings	9,976,000	11,755,000
	23,498,000	13,522,000
Dividends received	2,000,000	—
Equity at end of year	$ 21,498,000	$ 13,522,000

5. Other Investments

	December 31 1974	1973
At cost:		
Bonds, debentures and notes	$ 1,435,000	$ 1,980,000
Townsite mortgages and advances	3,005,000	2,202,000
Marketable shares (market value $981,000)	1,202,000	—
Other	2,683,000	789,000
Investments in 50% owned companies (note 1(a))	1,664,000	1,461,000
	$ 9,989,000	$ 6,432,000

6. Long Term Debt

	December 31 1974	1973
Abitibi Paper Company Ltd.:		
First Mortgage Sinking Fund Bonds		
4¼% Series B, due July 15, 1974	$ —	$ 976,000
6¼% Series C, maturing 1977	2,843,000	3,981,000
Sinking Fund Debentures		
5¼% Series A, maturing 1985 ($13,400,000 U.S.)	13,279,000	14,165,000
7¼% Series B, maturing 1987	12,332,000	13,398,000
9¾% Series D, maturing 1990	14,948,000	15,000,000
Abitibi Corporation and subsidiary companies:		
Instalment Note bearing interest at ⅜% above lender's prime rate maturing 1981 ($5,250,000 U.S.)	5,203,000	5,975,000
5⅛% Instalment Notes maturing 1984 ($8,800,000 U.S.)	8,721,000	9,460,000
5½% Instalment Note maturing 1986 ($12,000,000 U.S.)	11,892,000	12,945,000
7⅜% Instalment Notes maturing 1988 ($16,000,000 U.S.)	15,856,000	16,929,000
5¼% Instalment Note maturing 1991 ($3,349,000 U.S.)	3,319,000	3,460,000
Miscellaneous Notes ($5,990,000 U.S.)	5,936,000	7,153,000
The Price Company Limited and subsidiary companies:		
Sinking Fund Debentures		
5¾% Series A, maturing 1982	12,300,000	—
6¾% Series B, maturing 1987	23,500,000	—
5½% Sinking Fund Notes maturing 1985 ($12,230,000 U.S.)	12,120,000	—
6% Subordinated Sinking Fund Notes maturing 1986 ($5,600,000 U.S.)	5,550,000	—
Sundry indebtedness	2,104,000	964,000
	149,903,000	104,406,000
Less—payments due within one year	10,740,000	6,814,000
	$139,163,000	$ 97,592,000

Sinking fund and instalment payment obligations for 1975 on long term debt, including payments based on 1974 earnings, amount to $12,080,000 of which $1,340,000 has been discharged by prior purchase and retirement.

Principal repayment obligations on long term debt for the years 1976 to 1979 inclusive are estimated to be $12,800,000, $11,300,000, $11,650,000 and $10,150,000, respectively.

Abitibi Paper Company Ltd. has effectively guaranteed payment of outstanding long term debt of Abitibi Corporation and subsidiary companies amounting to $31,079,000 U.S. at December 31, 1974.

7. Preferred Shares

The 7½% Cumulative Redeemable Preferred Shares, Series A, are redeemable at the option of Abitibi at $52 per share from June 1, 1978 to May 31, 1983 and thereafter at $51 per share. During 1974, a total of 4,850 shares with a par value of $242,500 (1973—750 shares with a par value of $37,500) were purchased and cancelled pursuant to the conditions attaching to this issue of shares.

8. Common Shares

Of the authorized and unissued common shares, 581,033 shares are reserved under the Key Employees' Stock Option Plan and options are outstanding on 503,983 shares at prices equal to market value at date of grant, ranging from $7.3125 to $11.375 per share, of which options in respect of 345,024 shares are held by officers of Abitibi. Options are for terms of up to ten years and are exercisable mostly in instalments upon fulfillment of service conditions.

The Plan was amended in 1973 to provide for the use of a market growth formula at date of exercise for all subsequent options and to permit this as an alternative for options then outstanding. In accordance with this formula, the market growth amount is determined by multiplying the number of shares with respect to which the option is exercised by the excess of market value per share at date of exercise over market value at date of grant. Shares to this value are issued in consideration of the relinquishment by the optionee of his option right to the remaining shares in the calculation of the market growth amount and the payment of one cent per share issued.

There were 94 shares issued in 1974 (144,193 in 1973) under the terms of the Plan.

9. Unfunded Pension Benefits

The single-sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1974, as indicated by recent independent actuarial reports, is approximately $35,000,000. Past service costs are being funded and charged to earnings in annual instalments to 1990.

10. Remuneration of Officers and Directors

Remuneration in 1974 of Abitibi's 17 directors and 24 officers, including past officers, determined in accordance with the Canada Corporations Act, amounted to $60,750 and $1,244,308, respectively. Five officers of Abitibi served also as directors.

11. Capital Expenditures

Planned capital expenditures for 1975 aggregate approximately $95,000,000. The plans for capital projects are under continual review by management.

12. Subsequent Event

Abitibi has agreed to sell, by private placement, sinking fund debentures to be dated March 1, 1975. The net proceeds, expected to aggregate approximately $56,500,000, will be used to reduce bank borrowings incurred to finance the purchase of common shares of The Price Company Limited.

Auditors' Report

To the Shareholders of
ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1974 and the consolidated statements of net earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of other chartered accountants as to the equity of Abitibi Paper Company Ltd. in the earnings of Mattabi Mines Limited.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto, February 10, 1975

Financial Review

Consolidated net sales for 1974, which include sales of The Price Company Limited since date of acquisition, increased 37% and compare with the previous year as follows:

	1974	1973
Newsprint group	$251,344,000	$187,175,000
Fine papers group	157,746,000	116,881,000
Building materials & packaging—Canada	44,295,000	36,563,000
Building products—U.S.A.	61,362,000	62,917,000
	514,747,000	403,536,000
The Price Company Limited	37,146,000	—
	$551,893,000	$403,536,000

The distribution of sales by principal market areas was 47% in the United States, 47% in Canada and 6% to offshore destinations.

The purchase of 50.7% of the issued common shares of The Price Company Limited was made on November 21, 1974, through an offer on the Toronto and Montreal stock exchanges. The cost of the 5,000,000 shares to Abitibi was $125,500,000 paid in cash as the shares were delivered. Assuming that the investment in Price had been made as of January 1, 1974, that financing costs of the bank loan had been incurred for the full year and without ascribing potential economies to be derived from the acquisition, it is estimated that Abitibi's consolidated results for the year ended December 31, 1974 would have been as follows:

Net sales	$834,894,000
Net earnings	$ 54,497,000
Net earnings per common share	$2.97

Also during 1974 Abitibi acquired all the outstanding shares of Northern Wood Preservers, Limited and Pope & Talbot Ontario Ltd., the latter now called Abitibi Lumber (Hudson) Ltd., at a total cost of $11,189,000.

Capital expenditures in 1974 amounted to $35,460,000. This compares with $22,147,000 spent in 1973. Our capital program encountered numerous delays in equipment deliveries and as a consequence some planned expenditures have been carried over into 1975.

Planned capital expenditures for 1975, including projects carried over, amount to approximately $40,000,000 for Abitibi and $55,000,000 for Price, a total of $95,000,000. The plans for capital projects are under continual review by management.

Funds utilized for the retirement of long term debt were $10,487,000 in comparison with $11,427,000 during the previous year. Long term debt increased as a result of including the debt of acquired subsidiaries and now stands at $139,163,000. Repayments amounting to not less than $10,740,000 will be made in 1975.

As interim financing for the purchase of the Price common shares, Abitibi incurred a bank loan amounting to $111,500,000. Under an agreement dated February 12, 1975 with Wood Gundy Limited as agent, Abitibi has agreed to sell $57,000,000 of Sinking Fund Debentures to be dated March 1, 1975. These debentures will be issued in two series. The Series E are for $42,500,000 principal amount with interest at 10½%, maturing March 1, 1995 and with a right of prepayment on March 1, 1985 at the holder's option. The Series F are for $14,500,000 principal amount with interest at 11% maturing March 1, 1995. The proceeds from these issues will be used to reduce the bank loan. Abitibi will be considering further financial arrangements during 1975 to repay the remaining bank loan.

The consolidated balance sheet at December 31, 1974 reflects the minority shareholders' interest in Price of $110,795,000. This consists of the following:

The Price Company Limited	
Preferred share equity	$ 3,750,000
Common share equity —49.3%	97,911,000
Price subsidiary companies, principally Gaspesia Pulp and Paper Co. Ltd. which owns the newsprint mill at Chandler, Quebec, and in which The New York Times has a 49% interest	9,134,000
	$110,795,000

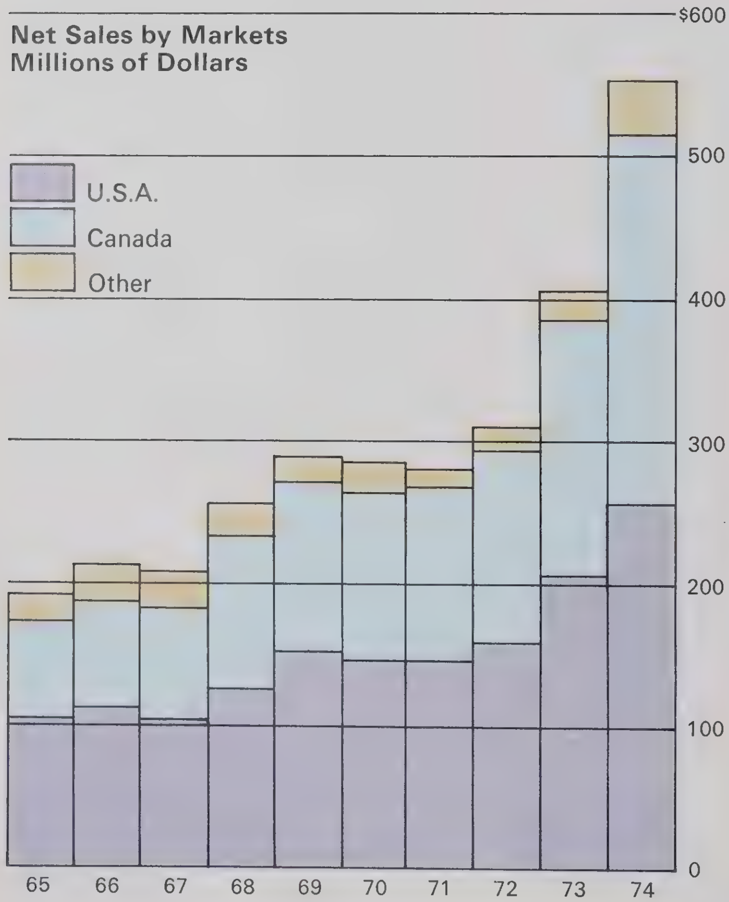
Consolidated working capital at December 31, 1974 amounted to $87,948,000. This will be improved early in March 1975 when approximately $56,500,000 is realized from the sale of sinking fund debentures and the bank debt is reduced by an equivalent amount.

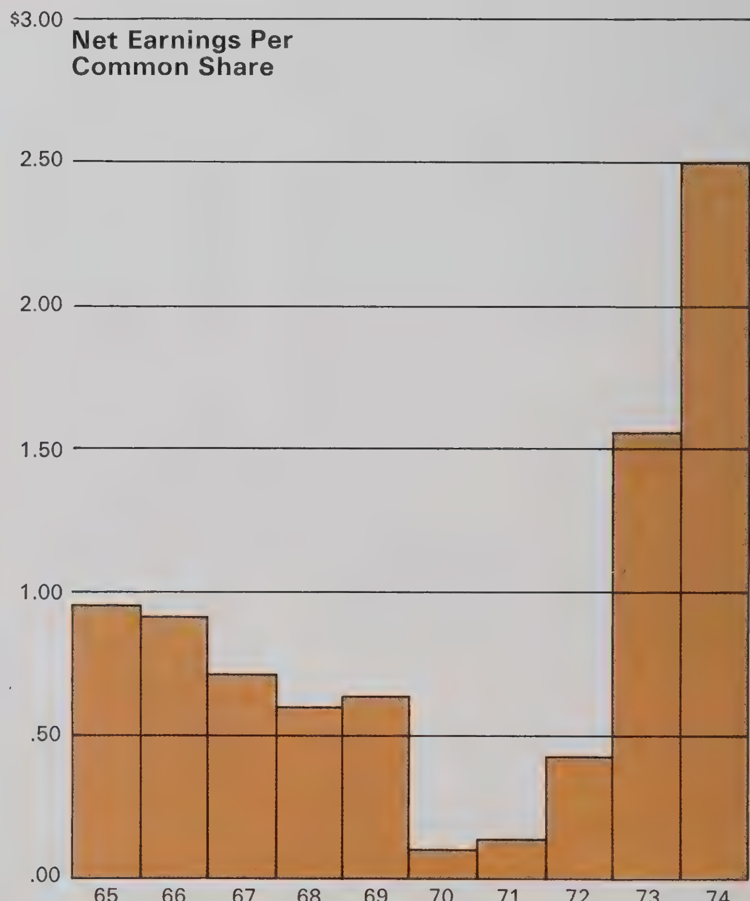
Increased sales volume and prices have resulted in significantly higher balances for accounts receivable. At the same time federal and provincial governments have advanced the payment of corporate income taxes resulting in the payment of taxes prior to the cash flow from accounts receivable. These factors contributed to a decrease in cash otherwise available.

The federal government has extended the accelerated capital cost allowance rates for manufacturing equipment for an indefinite period. This extension, along with the reduced corporate tax rate on Canadian manufacturing profits, will assist Canadian manufacturers to remain competitive in world markets.

Net Sales and Net Earnings by Quarters

	Net Sales 1974	Net Sales 1973	Net Earnings 1974	Net Earnings 1973
1st quarter	$121,914,000	$ 89,239,000	$ 11,910,000	$ 3,911,000
2nd quarter	133,205,000	98,524,000	11,930,000	7,157,000
3rd quarter	133,820,000	100,730,000	12,098,000	5,904,000
4th quarter	162,954,000	115,043,000	9,942,000	13,580,000
	$551,893,000	$403,536,000	$ 45,880,000	$30,552,000
Extraordinary charge			—	670,000
Net earnings			$ 45,880,000	$29,882,000





Since the purchase of the common shares of The Price Company Limited occurred late in 1974, the following balance sheet for Abitibi Paper Company Ltd. is provided for purposes of information. This balance sheet is drawn up so as to show the investment in the shares of Price only. The fully consolidated balance sheet is provided as part of the audited financial statements.

Abitibi Paper Company Ltd. and Subsidiary Companies

Consolidated Balance Sheet as at December 31, 1974

(*thousands of dollars*)

(showing The Price Company Limited as an investment only)

Current Assets:	
Cash and short term investments	$ 2,996
Accounts receivable	71,537
Inventories	84,520
Prepaid expenses	2,856
	161,909
Investment in common shares of The Price Company Limited at cost	125,500
Capital Assets—net	247,725
Investments and Other Assets	50,147
	$585,281
Current Liabilities:	
Bank indebtedness	$114,838
Accounts payable and accrued liabilities	50,235
Dividends payable	3,620
Income and other taxes payable	15,117
Payments due within one year on long term debt	6,664
	190,474
Long term debt	89,769
Deferred income taxes	38,625
Unrealized gain on translation of foreign currencies	4,957
Shareholders' equity	261,456
	$585,281

Ten Year Review

(all amounts stated in thousands of dollars other than per share calculations)

	1974	1973
Sales and Earnings		
Net sales	$551,893	$403,536
Depreciation and depletion	21,243	17,732
Income taxes	30,256	15,030
Earnings from operations before equity in earnings of Mattabi Mines Limited	35,904	18,797
Equity in earnings of Mattabi Mines Limited	9,976	11,755
Earnings from operations	45,880	30,552
Extraordinary gain (loss)	—	(670)
Net earnings	45,880	29,882
Per common share		
Earnings from operations before equity in earnings of Mattabi Mines Limited	$ 1.94	$ 1.00
Earnings from operations	$ 2.50	$ 1.66
Net earnings	$ 2.50	$ 1.62
Dividends Declared		
On preferred shares	$ 718	$ 730
On common shares	11,763	4,954
Per common share	65¢	27½¢
Capital Expenditures		
On properties, plant and equipment	$ 28,638	$ 18,712
On logging equipment and development	6,787	3,333
On woodlands	35	102
Financial Position		
Current assets	$335,096	$154,250
Current liabilities	247,148	59,668
Working capital	87,948	94,582
Capital assets, at net book values	452,985	228,811
Investments and other assets	58,822	41,997
Deposit on sale of real estate	—	—
Long term debt*	139,163	97,592
Deferred income taxes	80,940	33,592
Unrealized gain on translation of foreign currencies	6,498	5,003
Minority shareholders' interest	110,795	—
Shareholders' equity	262,359	229,203
Shareholders' Equity		
Shareholders' equity—preferred shareholders	$ 9,469	$ 9,772
—common shareholders	252,890	219,431
Common shares outstanding (thousands)	18,097	18,097
Equity per common share	$ 13.97	$ 12.13

**Long term debt in U.S. funds is translated into Canadian dollars for 1969 and subsequent years at exchange rates in effect at December 31st of each year and for years prior to 1969 at rates prevailing when the debt was incurred.*

1972	1971	1970	1969	1968	1967	1966	1965
$307,751	$279,434	$283,947	$287,000	$255,588	$209,303	$211,167	$194,411
16,646	16,682	16,023	16,076	15,078	12,284	11,599	10,486
5,346	2,933	4,630	12,307	11,490	12,457	15,105	16,160
6,749	4,123	5,032	12,141	10,617	12,452	15,928	16,736
1,767	—	—	—	—	—	—	—
8,516	4,123	5,032	12,141	10,617	12,452	15,928	16,736
—	728	(455)	—	411	—	—	—
8,516	4,851	4,577	12,141	11,028	12,452	15,928	16,736
34¢	19¢	24¢	64¢	58¢	72¢	92¢	96¢
43¢	19¢	24¢	64¢	58¢	72¢	92¢	96¢
43¢	23¢	21¢	64¢	60¢	72¢	92¢	96¢
$ 731	$ 742	$ 750	$ 750	$ 323	$ —	$ —	$ —
1,257	—	5,006	6,430	8,157	9,747	9,741	9,728
7¢	—	28¢	36¢	46¢	56¢	56¢	56¢
$ 10,904	$ 9,481	$ 15,178	$ 21,836	$ 14,476	$ 13,332	$ 20,842	$ 30,418
551	702	2,076	2,818	1,722	2,271	3,730	1,204
202	102	89	58	6	1,615	—	—
$129,826	$118,904	$117,973	$113,513	$ 97,978	$ 83,247	$ 71,156	$ 86,887
40,207	34,244	40,855	49,008	36,293	25,835	25,664	38,130
89,619	84,660	77,118	64,505	61,685	57,412	45,492	48,757
225,577	230,357	239,404	238,078	230,661	192,541	187,077	174,296
32,472	30,911	30,695	32,102	31,890	10,835	5,978	4,793
—	—	—	—	—	1,650	—	—
106,060	112,769	118,370	109,552	105,704	59,675	46,123	48,948
31,122	30,011	29,867	29,687	28,809	26,189	21,855	14,847
5,633	5,448	5,154	689	—	—	—	—
—	—	—	—	—	—	—	—
204,853	197,700	193,826	194,757	189,723	173,274	170,569	164,051
$ 9,810	$ 9,816	$ 10,052	$ 10,062	$ 10,062	$ —	$ —	$ —
195,043	187,884	183,774	184,695	179,661	173,274	170,569	164,051
17,953	17,884	17,884	17,863	17,855	17,405	17,405	17,374
$ 10.86	$ 10.51	$ 10.28	$ 10.34	$ 10.06	$ 9.95	$ 9.80	$ 9.44

Innovation

Research at Abitibi plays a major part in our growth. The watchword for research is innovation—the development of knowledge and skills that lead to improved use of our resources, greater economies, higher quality products, new products, and new uses for existing products.

Abitibi maintains an extensive and active Research Centre at Sheridan Park, west of Toronto, to conduct our programs and to provide support to our operating and sales personnel.

Forest management, wood production and manufacturing are constantly changing—responding to new demands for products and for better ways of doing things.

The innovative thrust of Abitibi technical people makes it possible. For example, a major program is underway to more fully integrate lumber and paper operations, to avoid waste, to use the "whole tree" to the greatest extent possible. To a greater degree than ever before, residue chips from our expanding sawmill complexes will be used as fibre in our paper mills. The tree, therefore, will produce both high quality lumber and paper.

In the face of uneconomic prospects for major new newsprint capacity, Abitibi research and technical people are carrying out programs to achieve higher yields and increased productivity, as well as conducting a never-ending search for better quality of product.

Progress is being made in developing thermo-refiner groundwood—a process that can produce higher yields of fibre from wood and achieve substantial economies.

Abitibi has played a major part in the radical trend to mechanization in the woods and continues to seek more efficient ways of harvesting wood, notably in the various operations required to fell and transport trees from the stand to roadside.

Forest yield and management studies are an important part of our work. Our foresters and engineers study soil, topography and other factors that affect forest yields. We are working toward the use of tree species as they are encountered in the forest.

Abitibi co-operates with others as well and recently set aside 16,000 acres of forest land in Ontario for university research projects and practical training.

The company, through its Research Centre and elsewhere, has developed many new, more useful, more marketable building products, including prefinished sidings, decorative and three-dimensional panels, and many new designs in these home products. Our researchers also are active in developing wallpapers, coated-paper packaging and similar products.

In these and other activities, forestry, engineering and scientific skills of Abitibi people are brought into play—providing the support and resourcefulness that give meaning to the company's innovative policy.

A strong program of research also is carried on by Price. A high-quality refiner pulp has been developed which will reduce or eliminate pollution from the sulphite pulp-making process, giving a greater yield from the wood and permitting more utilization of waste from the company's sawmills. Progress also has been made in the recovery and recycling of waste from the pulp mills. In addition, Price is continuing its studies in forestry management techniques, aimed at increasing tree growth and yield from the forests.

Diversification

Abitibi pursues a policy of diversification—first, toward the development of new forest-based products, secondly, into other natural resource areas such as mining.

This pattern of multi-product operation is a long-standing one at Abitibi.

Newsprint, of course, was and is our major product. But over the years, Abitibi, both internally and by acquisition of other companies, expanded into a wide range of other forest-based products.

We produce fine papers in several hundred grades for printing, writing and cover purposes, and a wide variety of other uses. Envelopes and stationery for home, office and school form an important part of our business. Our plants produce kraft pulp, corrugated containers and corrugating medium that goes into these containers, decorative plywood panelling, exterior siding and hardboard, sheathing and lumber.

Within many of these product groups, continuing diversification takes place in the sense that new products are developed from the old in order to meet the changing needs of consumers today.

Obviously, by diversification, we have extended the economic use of forest resources far beyond what would occur in a single-product company.

A notable broadening of our interests took place in recent years when we began participating in mineral exploration and development.

Abitibi now holds a 40% equity interest in Mattabi Mines Limited, which is operating a major base metals mine discovered on Abitibi freehold land in northwestern Ontario. We are pursuing other mineral interests and maintain a continuing mineral exploration program in Canada. Our mineral interests have been strengthened through the acquisition of Price which holds long-term mineral rights in Newfoundland and shares in the income of a producing mine.

Price is also a well diversified company as more fully outlined in the following section of this report.

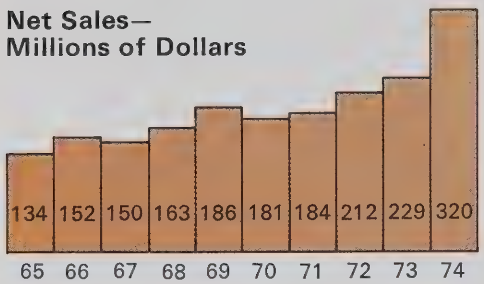
Abitibi, in November, 1974, purchased 50.7% of the issued common shares of The Price Company Limited. Together Abitibi and Price is the world's largest newsprint producer and a major factor in other sectors of the forest products industry.

ABITIBI
NEWSPRINT / PAPIER JOURNAL
PULP / PATE
FINE PAPERS / PAPIERS FINS
BUILDING MATERIALS / MATERIAUX DE CONSTRUCTION
CONTAINERS / CARTONS
Canada
Canada 8

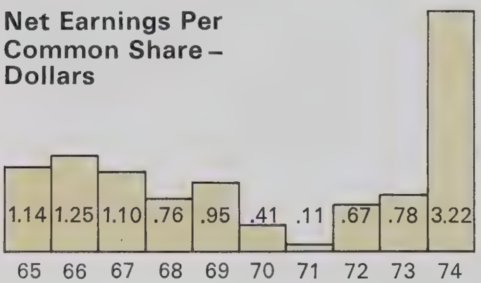
The Price Company Limited

Price traces its roots back to a sawmill operation in 1816, which has grown into a large, well-managed and diversified forest-products company. It has a history of steady growth, and today enjoys an outstanding reputation as a manufacturer and marketer of newsprint and groundwood printing papers—products that account for approximately 65% of total sales.

Net Sales— Millions of Dollars



Net Earnings Per Common Share – Dollars



In addition, Price manufactures a wide range of kraft papers and paperboards and has three large sawmills with another under construction. It also maintains a nation-wide wholesale distribution service organization for manufactured bags, folding cartons and towels, and for the warehousing and sale of purchased products.

Price operates four newsprint mills in Canada, located at Alma, Kenogami and Chandler in Quebec, and at Grand Falls in Newfoundland. The Chandler mill is 49% owned by the New York Times. The Kenogami newsprint mill also produces groundwood printing papers, kraft papers and some paperboards. The balance of Price's production of paperboards comes from a second mill at Kenogami which is integrated with a kraft pulp mill. More than half the company's newsprint production comes from four large newsprint machines installed in the past 11 years. The mills are located close to tidewater on rivers downstream from the wood resources—facilitating the receipt of pulpwood and providing access to world markets. Price charters a fleet of ocean-going vessels for water delivery of newsprint. In the United States, Price has a 50% interest in Boise-Price Southern Newsprint Corporation which provides Price with newsprint manufactured at a mill in Louisiana.

The company has long-term access to 18,000 square miles of timber resources on leasehold Crown and freehold limits in Quebec and Newfoundland.

Price holds long-term mineral rights in Newfoundland covering more than 2,000 square miles and on which there is a producing mine at the town of Buchans. The mine has sufficient proven zinc-lead-copper ore reserves for a further four to five years of operation.

Both Abitibi and Price have timber resources and energy supply that place the companies among the leaders of Canadian producers. Each harvests its acreage on a sustained yield basis, to maintain supply by natural growth. Each has developed significant hydro-electric power capacity which tends to protect their operations from escalating energy costs.

Together with Price, Abitibi is now in a favourable, even unique position to take maximum advantage of worldwide growth of newsprint demand and more effectively serve the markets for other forest-based products.

The Price Company Limited and subsidiary companies

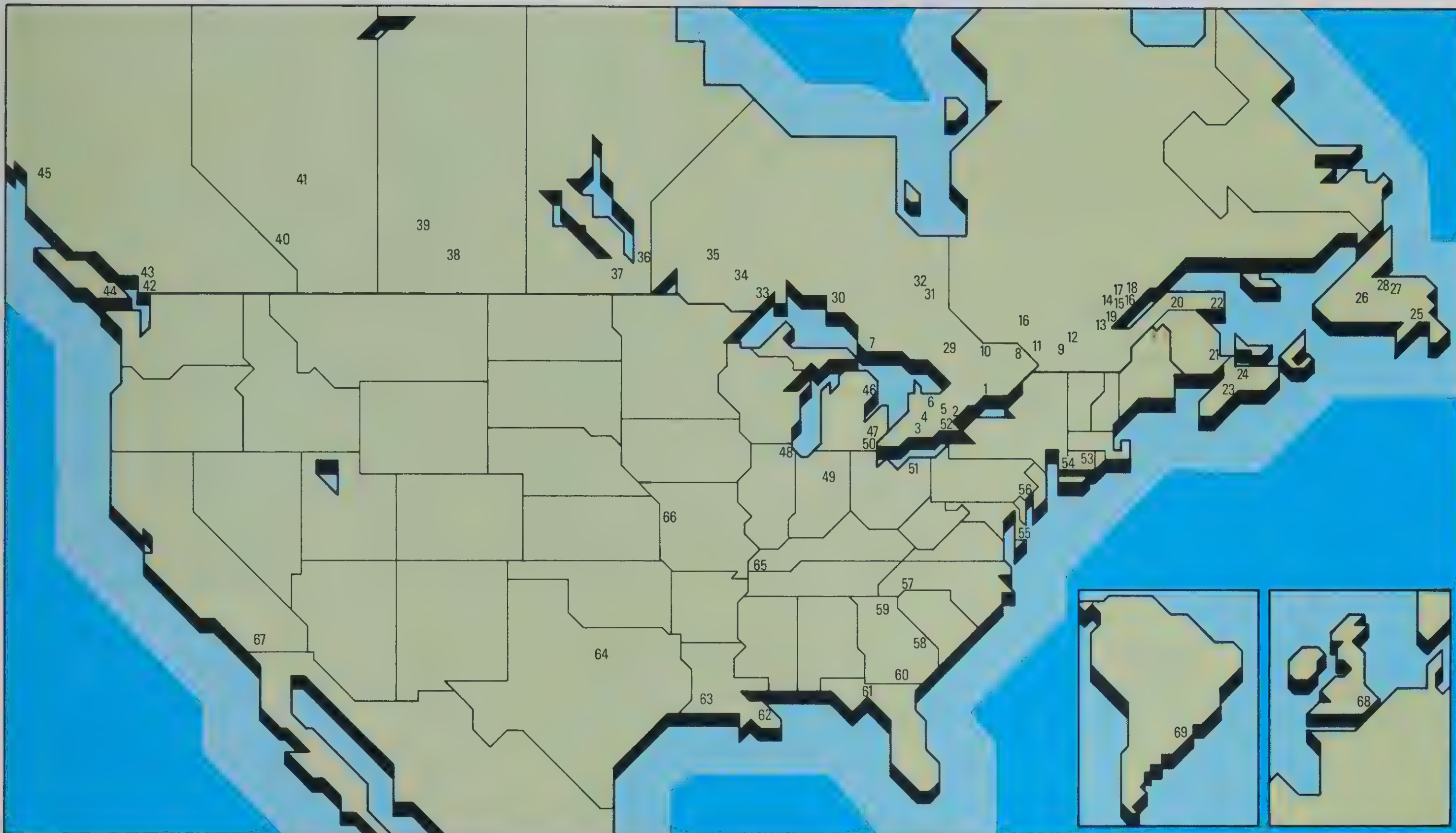
Condensed Financial Statements *(thousands of dollars)*

Consolidated Statement of Earnings	**Year ended December 31 1974**	**1973**
Revenues	$329,123	$233,721
Costs and expenses	294,834	225,194
Earnings before minority shareholders' interest	34,289	8,527
Minority shareholders' interest	2,421	740
Net earnings	$ 31,868	$ 7,787
Per common share	*$3.22*	*$.78*

Consolidated Statement of Retained Earnings	**Year ended December 31 1974**	**1973**
Retained earnings at beginning of year	$ 98,208	$ 94,012
Net earnings	31,868	7,787
	130,076	101,799
Dividends	11,484	3,591
Retained earnings at end of year	$118,592	$ 98,208

Consolidated Balance Sheet	**December 31 1974**	**1973**
Assets		
Current assets	$173,187	$133,925
Fixed assets (net)	181,641	175,275
Investments and other assets	8,675	6,228
	$363,503	$315,428
Liabilities and Shareholders' Equity		
Current liabilities	$ 58,811	$ 36,317
Long term debt	50,798	55,549
Deferred income taxes	42,315	34,264
Minority shareholders' interest in subsidiary companies	9,134	7,409
Shareholders' equity	202,445	181,889
	$363,503	$315,428

Geography of Locations



Abitibi

1 Toronto
3 London
5 Georgetown
6 Durham
7 Sault Ste Marie
8 Ottawa
9 Montreal
10 Pembroke
12 Joliette
13 Quebec
19 Beaupre
24 Stellarton
29 Sturgeon Falls
30 White River
31 Iroquois Falls
32 Smooth Rock Falls
33 Thunder Bay
34 Mattabi Mines
35 Hudson
36 Pine Falls
37 Winnipeg
40 Calgary
42 New Westminster
46 Alpena
47 Birmingham
48 Chicago
49 Middlebury
50 Troy
51 Cleveland
52 Thorold
53 Simsbury
54 New York
55 Woodbridge
56 Philadelphia
57 Roaring River
58 Augusta
59 Atlanta
60 Valdosta
61 Blountstown
64 Dallas
65 Memphis
66 Kansas City
67 Cucamonga

Price

1 Toronto
2 Hamilton
3 London
4 Kitchener
8 Ottawa
9 Montreal
11 Lachute
14 Alma
15 Kenogami
16 L'Ascension
17 Falardeau
18 Chicoutimi
20 Price
21 Moncton
22 Chandler
23 Halifax
25 Grey River
26 Buchans
27 Grand Falls
28 Botwood
37 Winnipeg
38 Regina
39 Saskatoon
40 Calgary
41 Edmonton
43 Vancouver
44 Victoria
45 Terrace
48 Chicago
54 New York
62 New Orleans
63 DeRidder
68 London, England
69 Buenos Aires

Primary Production

ABITIBI

	Newsprint Paper	Groundwood Specialty Papers	Fine and Printing Papers	Building Boards	Paper-boards	Market Pulp	Lumber
	Tons	Tons	Tons	MSF	Tons	Tons	MFBM
1974 Annual Capacity	1,228,000	60,000	188,000	775,000	94,000	119,000	175,000
Production 1974	1,221,500	29,600	183,000	612,300	76,800	120,100	79,300
1973	1,190,200	25,400	172,200	601,200	81,100	110,200	38,400
1972	980,100	32,000	145,300	570,400	78,500	112,800	29,700
1971	967,000	22,200	130,000	510,200	75,800	104,900	21,500
1970	1,043,600	37,300	138,300	452,000	77,800	112,500	8,600
1969	1,078,300	47,700	123,500	438,900	71,900	103,900	—
1968	925,100	43,200	116,300	449,500	56,400	100,000	—
1967	825,900	38,800	125,300	390,000	54,600	76,200	—
1966	890,800	36,300	122,100	380,900	55,000	78,300	—
1965	829,300	26,600	110,100	436,900	56,600	58,700	—

A significant portion of market pulp production (more than 50% in 1974) is consumed in the manufacture of primary paper products at other Abitibi mills.

Lumber production figures for 1974 include the production of Northern Wood Preservers, Limited and Abitibi Lumber (Hudson) Ltd. only since their acquisition by Abitibi.

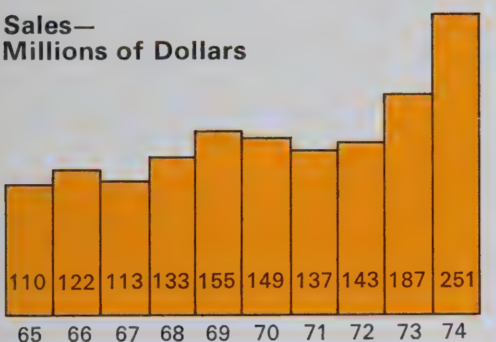
PRICE

	Newsprint Paper	Groundwood Specialty Papers	Kraft Paper	Paper-boards	Lumber
	Tons	Tons	Tons	Tons	MFBM
1974 Annual Capacity	1,073,000	30,000	50,000	75,000	200,000
Production 1974	1,008,000	28,000	52,000	63,000	158,000
1973	974,000	20,000	37,000	41,000	193,000
1972	1,085,000	27,000	49,000	61,000	171,000
1971	964,000	20,000	44,000	59,000	140,000
1970	1,082,000	7,000	47,000	58,000	113,000
1969	1,061,000	—	49,000	55,000	144,000
1968	959,000	—	52,000	57,000	98,000
1967	884,000	—	51,000	53,000	76,000
1966	875,000	—	50,000	53,000	41,000
1965	795,000	—	45,000	47,000	37,000

In addition to the above primary production, Price sells a small amount of market pulp which is residual capacity not required for kraft paper and paperboard operations.

Abitibi Newsprint Group

Sales— Millions of Dollars



Our newsprint and pulp facilities operated at full capacity in 1974, with oversold conditions in newsprint, groundwood specialities and pulp prevailing through the turn of the year.
Net sales in 1974 of $251,344,000 were 34% higher than the $187,175,000 reported in 1973.

Newsprint

The strong demand for newsprint and pulp led to a continuing improvement in selling prices. More realistic prices, higher volumes and improved operating ratios have contributed to a level of profit performance well beyond that of recent years.

Starting with the strike period in mid-1973, the supply of newsprint to meet demand has been very tight and occasionally periods of shortage developed in some markets. This tight supply-demand relationship continued through 1974 but evidenced some slackening in demand at the end of the year. During this period of customer concern over ample supply and increasing prices, Abitibi continued its policy of working closely with its customers. We believe these efforts to understand customer problems and to be responsive under mutually trying conditions have been successful and Abitibi's image as a reputable and responsible supplier of newsprint has been enhanced.

We continue to upgrade many phases of our newsprint facilities to make them more efficient and also to increase production from existing equipment. The installation of three new paper machine drives is underway at Thunder Bay and Beaupré. The speed increases obtained on these machines, as well as renovations there and elsewhere, will permit us to raise our overall capacity by approximately 5% above 1974 levels.

Our facility at Sault Ste. Marie continued to show improvement as the stronger market conditions helped us upgrade product mix and receive an equitable return on these groundwood specialty papers.

There is no doubt that the demand for newsprint will moderate in 1975 as a result of the slow-down of the North American economy. We foresee a lower but satisfactory level of operations at our newsprint facilities.

Pulp

Our pulp operations improved during the year as prices increased. The bleached kraft pulp mill at Smooth Rock Falls continued at capacity. Much of the output was used by Abitibi paper mills and the remainder sold as market pulp. As in the past, we were net purchasers of pulp. We expect our pulp facility to operate near capacity in the current year.

Lumber

Construction was started on the sawmill complex at White River, Ontario. This facility will have an annual capacity of 70 million board feet, drawing upon Abitibi's Sault Ste. Marie timber limits for raw material supply. The sawmill operation will produce packaged dimension lumber for the Canadian and U.S. markets. Residue chips from White River will be used in our newsprint mills —a further step in the program toward upgraded utilization of our forest resources.

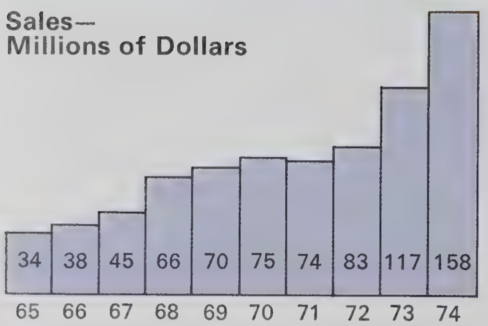
This mill was originally scheduled to start operations at the end of 1975; however, depressed conditions in the housing and construction markets, which are not anticipated to improve significantly before 1976, resulted in a decision to slow down the rate of construction on this new complex and target its start-up for mid-1976.

During the year, Abitibi acquired two lumber operations—the sawmill, tie mill and wood treating plant of Northern Wood Preservers, Limited at Thunder Bay, as well as the stud mill operations and excellent timber limits of Pope & Talbot Ontario Ltd. located at Hudson, Ontario.

These acquisitions, together with our existing sawmill at Smooth Rock Falls and our White River project under construction, will advance substantially our plans for much greater integration of sawmill and pulp and paper operations. Our objective is to ensure an ample and economical fibre base for present operations and the ability to expand in the future.

The lumber market in 1974 deteriorated due to a decline in construction, particularly in the U.S. The performance of the company's lumber operations in 1975 will be at a lower level. However, for the long term, we are confident of successful and profitable operations from our expanded lumber capability. The company is well positioned to benefit from improvement in lumber markets, particularly the major eastern U.S. market.

Abitibi Fine Papers Group



Net sales of the fine papers group amounted to $157,746,000, an increase of $40,865,000 over 1973.

Abitibi Provincial Paper
Fine paper business was buoyant throughout most of the year, continuing a trend that developed in 1970. This has made possible greater profitability and a more reasonable return on investment. Abitibi Provincial shipments amounted to 181,000 tons in 1974 and maintained its traditionally strong position in the Canadian market. Profitability gains were experienced in the year, the result of high volumes, improved product mix and greater operating efficiencies in our plants.

Although the 1974 results were excellent, the first half of the year saw a continuation of inventory buildups among users responding to fears of shortages. In the latter half of the year, paper sales were affected by our customers reducing their inventories as these fears lessened. Inventory adjustment has continued into 1975 and we foresee a resumption of improved markets as the year progresses. Cost increases of pulp, energy and other products and services were a feature of 1974 operations. The price of pulp rose in stages to double that of two years ago. While some of these cost increases have been offset by rising prices, we are faced with greater difficulty at present in absorbing higher costs and maintaining price stability.

While the level and profitability of business in 1975 will depend in part on economic trends and the degree of cost pressures, we look forward to an improving tone for our fine papers through the current year.

Hilroy Envelopes & Stationery Limited
Strong market demand resulted in another year of excellent sales and profits. Rising costs and, through the early part of the year, the impact of some raw material shortages were adverse factors. The prospect for the company in the current year is for a continuation of reasonably good volume and profit.

At the beginning of 1974, the commercial envelope division of Hilroy was merged with that of Canada Envelope Company, leaving Hilroy to concentrate in the areas of school, home and office supplies. The Hilroy facilities consist of plants at Toronto, Vancouver and Joliette, Quebec. The Joliette plant was closed down for just over six months by a work stoppage; this dispute was settled on January 14, 1975, and operations have resumed.

The rationalization of the Hilroy and Canada Envelope operations has worked out well.

Canada Envelope Company
A higher level of sales and profit was achieved by the company in the year. The distribution network now extends coast to coast, with locations at Stellarton, Montreal, Toronto, London, Winnipeg, Calgary and Vancouver. An expansion program has been carried out at Stellarton, a new plant has been leased in Vancouver and a new 100,000 square foot plant has been completed in Rexdale.

Inter City Papers, Limited
Merchant paper and distribution operations of Lauzier, Little Inc. in Montreal and Quebec City, Whyte-Hooke Papers in Toronto and Neville Papers of Ottawa continued through much of 1974 to enjoy the buoyant business volumes that began to be realized in 1973.

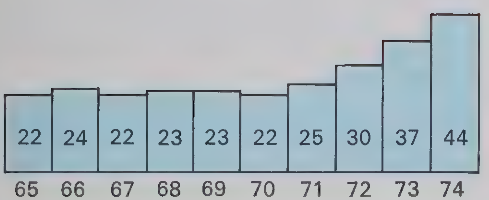
The new Montreal warehouse of Lauzier, Little contributed to greater efficiency in its first full year. As a materials handling and distribution warehouse, it is one of the most advanced in the North American paper industry.

United Paper Mills Limited, a 1973 acquisition, is being merged with Whyte-Hooke. A contract has been let for a new 100,000 square foot distribution plant in Toronto to be completed in the current year.

Hillier Paper Limited
The company, a Manitoba paper merchant based in Winnipeg, enjoyed a second successful year as an Abitibi subsidiary. Operations have fulfilled our expectations that Winnipeg is becoming an increasingly important centre of printing activity.

Abitibi Building Materials & Packaging—Canada

**Sales—
Millions of Dollars**



Net sales of hardboard, exterior siding, hardwood plywood, corrugated containers and corrugating medium amounted to $44,295,000 in 1974, compared with $36,563,000 in the previous year, with most of the improvement coming from the packaging sector.

Building Materials
While sales volume of building materials was satisfactory through the first three quarters of 1974, a sharp reversal occurred in the fourth quarter as housing starts declined. The impact has been severe on our panel and hardboard business, as dealers worked off inventories and imported products began entering the market at cheaper prices.

The weakness in the U.S. market spread to Canada in more moderate form. Canadian housing starts in 1974 reached only 222,000, a decline of 17% from the 1973 level of 268,000. With the building slump continuing into the early part of 1975, starts may drop to the 190,000 to 200,000 level.

This weakening demand is expected to result in active price competition in the current year, especially in interior products. Exterior siding remains a relatively strong sector of our business and our product continues to enjoy good market acceptance.

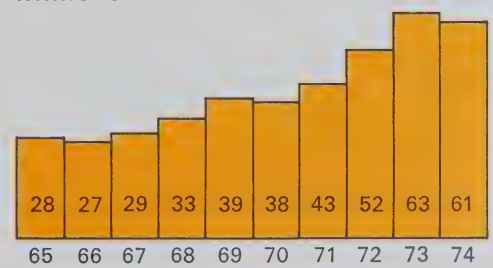
Substantially weaker markets also developed for hardwood plywood products and these markets remain in a temporarily depressed state.

Packaging
Our container volume again experienced growth in 1974. A gain of 9% compares with an estimated industry average growth rate of 3%. Abitibi Containers, operating plants at Rexdale and Pembroke in Ontario, thus continued to experience a rewardingly profitable business. The strength in the packaging market was reflected in another year of high-level operations at our corrugating medium plant at Sturgeon Falls, Ontario.

In the current year, we expect operations to be at an overall satisfactory level. Some weakness evidenced in the early months of 1975 should be offset by improved markets as the year progresses.

Abitibi Building Products—U.S.A.

**Sales—
Millions of Dollars**



The economic recession adversely affected the markets served by our U.S. Building Products Division and we experienced a significant decline in sales volume in the second half of the year. Net sales in 1974 were $61,362,000 compared with $62,917,000 in 1973.

The year 1974 was seriously affected by the worst decline in housing starts since the Second World War. Starts on new residential construction dropped by some 30% from 1973 to 1974. Characterized by distress selling and unstable pricing, the adverse effect continued into the first months of 1975. We have some reason to hope that the final quarter of 1974 may prove to be the low point in this recessionary pattern.

Unfortunately, declining volume was accompanied by a serious upward trend in costs. Energy costs more than doubled, raw materials increased by about 100% and labour rose by about 12% during the year.

These spiralling costs placed severe pressures on our earnings since they

could not be offset by price increases because of weak market conditions. While we foresee no major change in the first half of the current year, we do feel that, barring a continued general recession, some improvement in sales and earnings may occur in the second half.

Despite the severity of overall economic conditions, continuing programs designed to achieve greater manufacturing efficiencies and to develop improved and more saleable products have placed us in a good competitive position for the future.

Our prefinished moulding operation at Middlebury was expanded to include plastic extrusions, thereby broadening our sales potential in the remodelling and repair market. We expect that these new products will yield additional earnings in 1975.

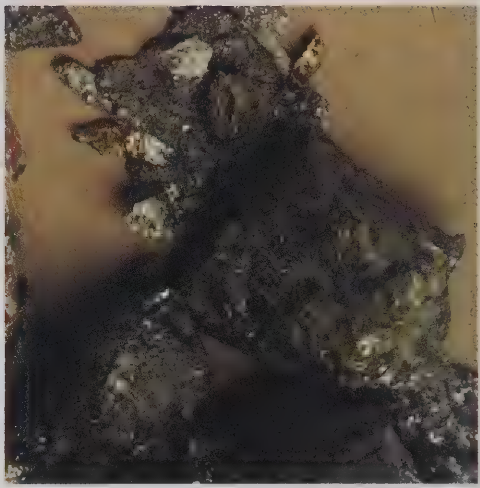
At our product design and development laboratory, we perfected techniques to produce deep embossed panels with three dimensional characteristics. Our original series of "Barnboard" panels, introduced a year ago, was supplemented with our "Hand Hewn" series in 1974. More new embossed panels will be released to the market early in 1975. In our line of exterior siding products, we will introduce a new shingle design and a five-year guaranteed prefinished lap siding during the first quarter. We are confident that our new product introduction will lead to increased market penetration for the division in 1975.

Abitibi Woodlands

Some shortages of wood occurred in 1974 as mill production in our industry maintained capacity levels. Woodlands operations, as a result, were placed under pressure to achieve high production to meet our requirements, which are filled both by our own output and by purchased wood.

Improved methods of harvesting have been and are being introduced on our woodland limits, to improve labour productivity, to increase production and to broaden the use of the total forest resource. We are continuing to study methods of improved felling, limbing and transporting of trees to roadside—an aspect of woods activity in which there is considerable potential for further mechanization. A shortage of woods labour continued to be a problem. Abitibi obtains pulpwood for its Canadian mills from Crown lands in Quebec, Ontario and Manitoba and from the company's freehold lands in Ontario.

Abitibi Mineral Interests



Mattabi Mines Limited
Metal prices rose to historically high levels in 1974, permitting Mattabi Mines Limited to generate a substantial cash flow and to retire the remainder of the debt that had been incurred to bring the mine into production.

Net earnings were $24,940,000 compared with $29,387,000 in the prior year. This represents a decrease of 15% from 1973. The decrease is more than accounted for by higher mining and income taxes which for 1974 were $15,170,000 compared with $4,883,000 in the previous year. Abitibi's 40% equity in Mattabi resulted in an earnings contribution of $9,976,000, equal to 56¢ per Abitibi share, compared with $11,755,000, or 66¢ per share in 1973.

The overall results from this investment exceeded our expectations, as demand for mineral production remained high. During the year, Abitibi realized its first cash return from these earnings when Mattabi declared an initial dividend to shareholders in December. The total payment made by Mattabi was $5 million, of which Abitibi's share was $2 million. Our cash flow will be augmented by further dividends from Mattabi in 1975.

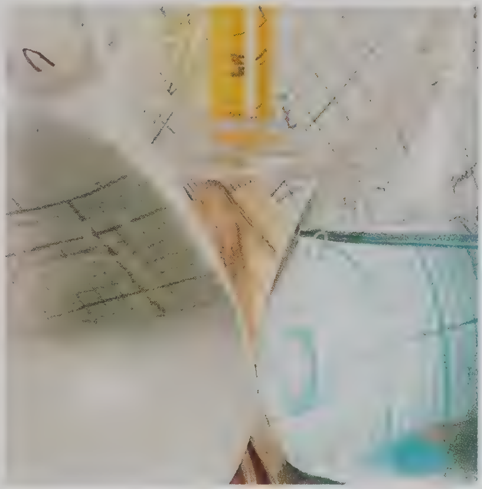
Toward the end of the year, copper metal prices declined sharply from their record levels. Some adjustment downward in demand and prices is a possibility in the current year. Primarily due to lower metal prices, the costs of further exploration and development and possibly lower ore grades, we expect lower earnings for Mattabi in 1975 as compared with 1974.

Ecology

Mattabi is continuing mineral exploration on its 4½ square miles of mineral lands in efforts to more closely define the base metals-silver orebody and possibly develop further ore reserves. The ore zone has been estimated to contain somewhat over 12 million tons of ore, of which slightly over 8 million tons are mineable by open-pit methods.

Abitibi Exploration
Mattagami Lake Mines Limited continues to work on Block 7 of our Sturgeon Lake area property, under an agreement by which Abitibi has a 45 per cent interest in any discovery.

Aside from our substantial equity interest in Mattabi, Abitibi is continuing its own exploration programs on its more than 1,000 square miles of freehold land as well as on other lands. This work in 1974 was carried out chiefly in Ontario and the Northwest Territories, both by Abitibi alone and in partnership with others.



Environmental Control
It is Abitibi policy to support efforts aimed at the conservation of water, air and land environments wherever we conduct woods, mill or other operations. We began planning for better control and making capital expenditures to that end well before the issue became an urgent one of public debate.

Some time ago, we designated senior management to this task and to act as liaison with governments, and have progressively increased our effort ever since.

Our spending on pollution abatement has ranged between $3 million and $4 million annually and we expect to make outlays of $4 million or more in the current year.

The main thrust of our control program is toward the reduction of water pollution, as well as a reduction in the requirement for water. Most paper mills use up to 30 million gallons of water daily.

During the year, we began preparation for the installation of a $900,000 primary pollution abatement system at our Sault Ste. Marie paper mill. This system will reduce suspended solids in the water and, on completion, will reduce total suspended solids discharged by the mill from 17.4 tons to 4.7 tons per day.

Pollution abatement at other locations continued during the year. Two waste water clarifiers were installed at Iroquois Falls and equipment to burn recovered solids is now largely completed. A flotation system for the recovery of solids was installed at Sturgeon Falls and thickening equipment is on order to complete this installation. A clarifier was added to our abatement program at Smooth Rock Falls and it will be completed in 1975.

Also at Smooth Rock Falls, we plan to install a refuse boiler to utilize bark, sawdust, shavings and clarifier sludge in the generation of fuel and power. At capacity operation, this will generate 635 billion BTU annually, resulting in a fuel cost saving of almost $1 million a year. From the burning of this refuse, plus a relatively small amount of natural gas and black liquor, it is estimated that 80.5 million kilowatt-hours of power will be produced, leading to a power cost saving of almost $1 million a year, based on projected 1976 power costs.

At our U.S. locations, environmental control programs were continued, although a deterioration in our building products business hampered this work to some extent. The Blountstown plant in Florida made notable progress in the recycling of water with a completely closed system. Our Roaring River plant in North Carolina undertook a major control program and possibly today is the best facility in the industry from an environmental point of view.

We are continuing our active research programs on various types of pollution control equipment and processes.

Abitibi
Organization and Personnel

Board of Directors
Mr. Norman J. MacMillan, Q.C., of Montreal, and Mr. William O. Twaits, C.C., of Toronto were elected to the Board of Directors at the last Annual General Meeting of Shareholders. These two gentlemen add great expertise to the Board not only in transportation and energy but in the broad field of business judgment and experience.

During the year Mr. Theodore O. Peterson resigned from the Board after ten years of service to the company. Mr. W. Stanley Rothwell retired as Senior Vice-President—Finance and resigned from the Board. Both of these gentlemen served the company faithfully and well, and their services were highly valued.

Mr. Charles R. Tittemore, President and Chief Executive Officer of The Price Company Limited, and Mr. Marcel Bélanger, Partner—Bélanger, Dallaire, Gagnon & Associés, both of Quebec City, were elected to the Board of Directors of your company. Mr. Tittemore also was elected to the Executive Committee of the Board and will play an important role in planning the future of both companies.

In November your company lost a gracious friend in the passing of Honorary Director Mr. Joseph P. Ripley. His presence on the Board of Directors dates back to 1946 and he served the company with great distinction until his retirement in 1964.

Personnel
Labour agreements were concluded during the year with the Lumber and Sawmill Workers' Union representing the woodlands workers. A strike at the Joliette, Quebec plant of the Canadian Stationery Company began on July 3, 1974 and was settled on January 14, 1975.

In keeping with patterns set elsewhere, labour costs in our industry are increasing substantially. Escalating payroll costs, due in part to a high level of inflation in the economy, pose a special and serious threat to the continuing competitiveness of our industry. To a degree greater than other segments of Canadian business, we depend heavily on export markets and must also successfully meet competition from abroad in the Canadian market.

In this context of international activity, the success of Canadian companies such as Abitibi hinges to a great degree on controlling our cost levels and our ability to sell our products at competitive prices. It remains an equal concern, however, that all our employees are remunerated fairly and adequately for their job performance.

Our employees numbered approximately 13,000 at the end of 1974. The fact that one of every seven employees has been with us for 25 years or more is a tribute to the stability of our people and their contribution to the company's success.

We instituted a management-by-objectives program in the company and this has proved successful over the past two years. We revamped and improved our performance-appraisal program in the year.

Many employees during the year elected to take educational courses, with company tuition aid, in order to upgrade their skills. Various managers attended management courses at Canadian and U.S. universities.

Abitibi is continuing its concerted program toward greater safety on the job. Safety goals have been included in each manager's objectives for the past two years. Frequency in 21 reporting mills was reduced by 15% in 1974 and a 12% reduction in the number of disabling injuries was achieved. Unfortunately our woodlands accident prevention program was not as successful as in previous years and we sincerely regret that two of our woodsworkers met tragic deaths while performing their daily tasks. This is a grim reminder that even greater vigilance is required by all the people in Abitibi to reach our stated "safe work habits" objectives in mill and woods operations.

Retired Employees
Abitibi, conscious of the impact of inflation upon the living standards of retired people, began paying a quarterly supplementary allowance to members of the company's retirement plan who retired prior to 1971. The additional amount is based on a factor to compensate for the high rate of inflation of the recent past, a loss of purchasing power that falls particularly heavily on those who retired before 1971. In addition, these former employees do not enjoy the same benefit levels under government pension plans as do those who retired more recently.

Appreciation
Your Directors appreciate the co-operation and efforts of all employees who worked diligently and contributed greatly to the excellent performance and results achieved in 1974.

Abitibi Products, Sales Offices and Plants

Products	Sales & Service	Manufactured at
Newsprint and Groundwood Specialty Papers	**Abitibi Newsprint Corporation** Atlanta, Ga.; Des Plaines, Ill.; Woodbridge, N.J., U.S.A. **Abitibi Paper Sales Ltd.** Toronto and Montreal, Canada	Iroquois Falls, Ontario Sault Ste. Marie, Ontario Thunder Bay, (2 mills), Ontario Pine Falls, Manitoba Beaupré, Quebec Augusta, Georgia
Kraft Pulp	**Abitibi Paper Sales Ltd.** Toronto, Canada	Smooth Rock Falls, Ontario
Corrugating Medium	**Abitibi Packaging Division** Toronto, Canada	Sturgeon Falls, Ontario
Hardboard, Woodgrained Hardboard, Prefinished Print Plywood Panels, Mouldings, Exterior Siding, Insulation Sheathing	**Abitibi Corporation Building Products** Birmingham, Mich.; Atlanta, Ga.; Des Plaines, Ill.; Hudson, Ohio; Arlington, Tex.; Lenexa, Kans.; Pompton Lakes, N.J.; Temple, Tex.; Simsbury, Conn.; Highspire, Pa.; Memphis, Tenn.; Middlebury, Ind.; Valdosta, Ga.; U.S.A.	Alpena, Michigan Roaring River, North Carolina Chicago, Illinois Cucamonga, California Blountstown, Florida Middlebury, Indiana
Exterior Siding, Hardboard, Woodgrain Hardboard, Hardwood Plywood	**Abitibi Building Materials Division** Toronto and Montreal, Canada	Sturgeon Falls, Ontario
Lumber	**Abitibi Paper Company Ltd.** **Northern Wood Preservers, Limited** **Abitibi Lumber (Hudson) Ltd.**	Smooth Rock Falls, Ontario Thunder Bay, Ontario Hudson, Ontario
Corrugated Containers	**Abitibi Containers** Toronto, Pembroke and Montreal, Canada	Toronto, Ontario Pembroke, Ontario
Fine and Printing Papers	**Abitibi Provincial Paper** Toronto and Montreal, Canada	Thorold, Ontario Thunder Bay, Ontario Georgetown, Ontario
School, Home and Office Supplies	**Hilroy Envelopes & Stationery Limited** Toronto, Ont.; Vancouver, B.C.	Toronto, Ontario Vancouver, British Columbia
	The Canadian Stationery Company Limited Joliette, Quebec	Joliette, Quebec
Envelopes	**Canada Envelope Company** Stellarton, N.S.; Montreal, Que.; Toronto, Ont.; London, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.	Stellarton, Nova Scotia Montreal, Quebec Toronto, Ontario Calgary, Alberta Vancouver, British Columbia
Paper Merchants	**Inter City Papers, Limited** **Lauzier, Little Inc.** Montreal and Quebec, Quebec **Neville Papers** Ottawa, Ontario **United Paper Mills Limited** Toronto and London, Ontario **Whyte-Hooke Papers** Toronto, Ontario **Hillier Paper Limited** Winnipeg, Manitoba	

Price Products, Sales Offices and Plants

Products	Sales & Service	Manufactured at
Newsprint and Groundwood Specialty Papers	**Price Paper Corporation** New York, N.Y.; Chicago, Ill.; New Orleans, La.; Montreal, Que.; Buenos Aires, Argentina	Kenogami, Quebec Alma, Quebec Chandler, Quebec Grand Falls, Newfoundland DeRidder, Louisiana
	Price Paper Limited London, England	
Paperboard	**Price Kraft and Paperboard Corporation** Montreal, Que.; Don Mills, Ont.	Kenogami, Quebec
	Price Paper Limited London, England	
Kraft Paper	**Price Kraft and Paperboard Corporation** Montreal, Que.; Don Mills, Ont.	Kenogami, Quebec
	Price Paper Limited London, England	
Lumber	**Price Lumber Company Limited** Quebec, Que.	Falardeau, Quebec L'Ascension, Quebec Price, Quebec
	Trans Continental Lumber Limited Vancouver, B.C.	Terrace, British Columbia
Converted Paper Products—bags, towels, folding cartons and wrapping paper	**Price Wilson Limited** —all major centres across Canada	Lachute, Quebec
Resale Products, warehousing and total distribution services for business and industry	**Price Wilson Limited** —all major centres across Canada	
Zinc, Lead and Copper Concentrates		Buchans, Newfoundland

Abitibi's Principal Subsidiary Companies

(wholly owned unless otherwise indicated)

The Price Company Limited *(50.7% owned)*
C.R.Tittemore, President

Abitibi Paper Sales Ltd.
J.E.Cottrelle, President

Abitibi Newsprint Corporation
L.E.Mansfield Jr., President

Abitibi Southern Corporation
T.C.Bannister, Vice-President

Northern Wood Preservers, Limited
Abitibi Lumber (Hudson) Ltd.
W.R.Parks, President

Abitibi Provincial Paper
T.H.Birchall, President

Hilroy Envelopes & Stationery Limited
J.E.Patterson, President

The Canadian Stationery Company Limited
J.P.Filion, Vice-President

Canada Envelope Company
C.C.Hopper, President

Inter City Papers, Limited
J.G.Davis, President
- Lauzier, Little Inc.
- Neville Papers
- United Paper Mills Limited
- Whyte-Hooke Papers

Hillier Paper Limited
K.G.Hillier, President

Abitibi Corporation—Building Products Division
C.F.Buckland, President

Abitibi Building Materials & Packaging—Canada
B.K.Koken, Vice-President

Abitibi Containers
S.F.Rook, Vice-President

Abitibi's fine papers
Abitibi is a leading producer of fine papers for the Canadian printing trade and for other markets. This annual report, lithographed in Canada, illustrates one use of these products.

The cover stock is Kromekote Cover CC1S 12 pt.*

Text pages are Abitibi Provincial's Royalcoat Offset Enamel, basis 160M

**Kromekote is a registered trademark owned by Champion International Corporation and licensed to Abitibi.*

Lithographed in Canada

Limited, were $23,840,000 or $1.30 per common share in comparison with $10,398,000 or 56¢ per share in 1973 after deduction of an extraordinary charge of $670,000.

Abitibi is devoting a significant portion of its cash flow to the additional modernization and expansion of its manufacturing facilities. Capital outlays this year are expected to exceed $45,000,000. This amount includes the purchase of Northern Wood Preservers, Limited and Pope & Talbot Ontario Ltd. operating sawmills at Thunder Bay and Hudson, Ont. respectively. These acquisitions have added 1,200,000 acres of licensed timber limits to Abitibi's holdings. Also construction is under way on a new sawmill complex at White River, Ont. The three sawmill operations will allow Abitibi to integrate its Thunder Bay pulp and paper mills with lumber and utilize sawmill waste to secure and reduce the cost of wood fibre. Other important projects currently under way include increased usage of wood refuse as a source of energy, new pulping processes, speed-up of paper machines, pollution abatement and further mechanization of woods operations.

The quarterly dividend of 15¢ per common share, payable August 1, 1974 to shareholders of record at the close of business on July 2, 1974, compares with the previous quarterly rate of 10¢ per share.

On behalf of the Board,

T. J. Bell.

Chairman and Chief Executive Officer

July 18, 1974

Lithographed in Canada on Abitibi Provincial's new Paragon Offset White, basis 160M, which contains a percentage of de-inked recycled fibre.

All Abitibi Provincial paper grades containing de-inked recycled fibre have this mark on the package.

CONTAINS RECYCLED DE-INKED FIBRE

ABITIBI

Semi-Annual Report

TO THE SHAREHOLDERS

Six months ended June 30, 1974

ABITIBI PAPER COMPANY LTD.

Toronto-Dominion Centre

Toronto, Canada M5K 1B3

A[illegible]IBI PAPER COMPANY LTD.
and subsidiary companies

To the Shareholders:

The strong market for Abitibi products is continuing with all principal plants operating at capacity levels. The only less buoyant market is U.S. building materials where there is some softness due to a lower level of housing construction.

Consolidated net sales for the first half year were $255,119,000 compared with $187,762,000 in 1973. Earnings from forest-based operations for the first half of 1974 were $18,403,000 or $1.00 per common share compared with last year's $7,923,000 or 42¢ per common share.

The replacement value of Abitibi's plants and equipment is substantially above their book worth. While earnings show considerable improvement in relation to depressed levels of recent years, the rate of return calculated on replacement or present-day value is much below the level of interest rates available in today's investment markets.

The Abitibi 40% equity in earnings of Mattabi Mines Limited for the first six months was $5,437,000 compared with $3,145,000 in 1973. Mattabi Mines has developed as a well managed and efficient mining operation. The sizeable debt incurred to establish this successful venture should be retired during the third quarter of this year.

Consolidated net earnings for the six months, including equity in earnings of Mattabi Mines

CONSOLIDATED FINANCIAL STATEMENTS (thousands of dollars)

NET EARNINGS

	Quarter Ended June 30 1974	Quarter Ended June 30 1973	Six Months Ended June 30 1974	Six Months Ended June 30 1973
Revenue:				
Net sales	$133,205	$ 98,523	$255,119	$187,762
Other income	1,192	1,125	2,342	1,823
	134,397	99,648	257,461	189,585
Costs and expenses:				
Cost of products sold	103,130	77,786	195,745	150,624
Provision for depreciation and depletion	4,570	4,238	9,188	8,419
Selling, general and research expenses	8,091	6,394	15,690	12,395
Interest expense	1,965	1,948	3,866	3,803
Taxes on income	7,246	4,054	14,569	6,421
	125,002	94,420	239,058	181,662
Earnings before equity in earnings of Mattabi Mines Limited	9,395	5,228	18,403	7,923
Equity in earnings of Mattabi Mines Limited	2,535	1,929	5,437	3,145
Earnings from operations	11,930	7,157	23,840	11,068
Extraordinary item:				
Write-down of veneer and plywood plant	–	–	–	670
Net earnings	$ 11,930	$ 7,157	$ 23,840	$ 10,398
Per common share:				
Earnings before equity in earnings of Mattabi Mines Limited	*$ 0.51*	*$ 0.28*	*$ 1.00*	*$ 0.42*
Earnings from operations	*0.65*	*0.39*	*1.30*	*0.60*
Net earnings	*0.65*	*0.39*	*1.30*	*0.56*

SOURCE AND APPLICATION OF FUNDS

	Quarter Ended June 30 1974	Quarter Ended June 30 1973	Six Months Ended June 30 1974	Six Months Ended June 30 1973
Source of funds:				
Earnings before equity in earnings of Mattabi Mines Limited	$ 9,395	$ 5,228	$ 18,403	$ 7,923
Depreciation and depletion	4,570	4,238	9,188	8,419
Deferred taxes and other non-cash charges	1,675	445	3,184	918
Increase in long term debt	47	–	947	–
Other items – net	396	(767)	608	(682)
	16,083	9,144	32,330	16,578
Application of funds:				
Invested in capital assets	6,689	4,674	11,180	7,813
Retirement of long term debt	1,751	1,364	3,572	3,259
Retirement of preferred shares	119	–	169	–
Dividends declared on preferred shares	180	182	361	365
Dividends declared on common shares	2,714	897	4,524	1,795
	11,453	7,117	19,806	13,232
Increase in working capital	$ 4,630	$ 2,027	$ 12,524	$ 3,346
Working capital at June 30th			$107,107	$ 92,965

Unaudited and subject to year-end adjustments